OAK Industries Inc.
ANNUAL REPORT
1976

A NOTE ABOUT THIS REPORT

In recent years the audience for corporate annual reports has become more and more segmented. Shareholders, employees, members of the financial community, investment analysts, federal and state regulatory agencies, and many who fall into none of these categories, all have their particular interests.

Preparing one report to meet the needs of these varied audiences has become increasingly difficult, time consuming and costly. This 1976 report reflects our effort to deal with this problem. Its simplified design is intended to do what an annual report basically should do—report the highlights of company operations for the year and present its current financial condition.

ANNUAL MEETING NOTICE

The Annual Meeting of Shareholders of Oak Industries Inc. will be convened at 2:00 p.m. on Friday, May 6, 1977, at the corporation's general offices in Crystal Lake, Illinois.

10-K REPORT AVAILABLE

This 1976 Annual Report contains the pertinent financial information incorporated in the Form 10-K Annual Report filed with the Securities and Exchange Commission. A copy of the more detailed Form 10-K may be obtained after March 31, 1977, by writing to the Corporate Relations Department, Oak Industries Inc., Crystal Lake, Illinois 60014.

OAK Industries Inc. and Subsidiaries
RANCHO BERNARDO, CALIFORNIA 92128

CONSOLIDATED STATEMENTS OF INCOME
for the Quarters and Six Months Ended June 30, 1979 and 1978
(Dollars in thousands, except per share data)

	SECOND QUARTER 1979	SECOND QUARTER 1978	SIX MONTHS 1979	SIX MONTHS 1978
NET SALES	$70,706	$48,743	$133,458	$91,166
Costs and Expenses	66,336	46,816	126,362	87,773
Income before taxes	$ 4,370	$ 1,927	$ 7,096	$ 3,393
Provision for taxes	1,640	768	2,596	1,353
NET INCOME	$ 2,730	$ 1,159	$ 4,500	$ 2,040
NET INCOME PER SHARE* (After Preferred Dividends)	$ .71	$ .39	$ 1.18	$ .68
(After Preferred Dividends but before provision for stock appreciation rights)	$ .76	$ .42	$ 1.35	$ .72

* Based on average common shares outstanding of 3,685,950 and 2,701,758 for the quarters ended June 30, 1979 and 1978, respectively, and 3,649,263 and 2,660,392 for the six months ended June 30, 1979 and 1978, respectively.

Fully diluted net income per common share is $.65 and $.34 for the quarters ended June 30, 1979 and 1978, respectively, and $1.07 and $.60 for the six months ended June 30, 1979 and 1978, respectively. These per share amounts are based on common shares that would be outstanding if dilutive convertible issues and stock options were exercised at the beginning of the periods with income adjusted accordingly. Such shares outstanding would be 4,228,900 in both periods of 1979 and 3,450,654 and 3,388,902 in the second quarter and first half of 1978, respectively.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Dollars in thousands)

	June 30, 1979	Dec. 31, 1978
Current Assets	$110,757	$ 97,844
Current Liabilities	52,576	48,901
Working Capital	$ 58,181	$ 48,943
Plant & Equipment—Net	60,917	50,770
Other Assets	13,774	13,658
	$132,872	$113,371
Less—Other Liabilities	8,876	5,562
Long Term Debt	60,876	49,781
Shareholders' Investment	$ 63,120	$ 58,028

It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the company's latest annual report to shareholders.

Oak Featured in Major Media . . .

The following excerpts are from recently published news and feature stories discussing Oak and its activities.

Los Angeles Times

"Despite the sometimes languorous California climate, Oak Industries Inc., which recently moved its corporate headquarters to Rancho Bernardo from chilly Crystal Lake, Illinois, has been expanding rapidly. A little over two years ago its over-the-air pay TV started broadcasting in Los Angeles. Today its National Subscription Television operation is the largest in the country and is adding about 12,000 new customers a month . . . To insure that it does not lose its technological advantage, Oak plans to increase its spending on research and development from 3 percent to 5 percent of sales. The company also is starting a 'think tank' which will not be product oriented."

New York Daily News (Advertising Column by Bob Donath)

"There's a fast-moving TV battle afoot that has nothing to do with the three major networks, which are beginning to look old-fashioned alongside the high-tech of pay TV. Combatants are a handful of over-the-air pay programming operators who can move into new markets faster than traditional pay cable TV systems. 'I believe the majority of pay subscribers will be on air rather than cable in the next five years,' says Everitt "Nick" Carter with a bullish but debatable assertion befitting his Oak Industries' current league-leading position as an over-the-air pay operator."

Greer/Kandel Report (New York Post and other newspapers)

"American businessmen may have wasted a lot of hand-wringing when the United States switched its diplomatic ties from the Republic of China to the Communist government on the mainland. According to one longtime participant in Taiwan trade, things there have never been so good. What's more, Everitt Carter says, the Chinese on Taiwan will benefit from the changed relationship because 'they were too close to the U.S. Now the umbilical cord has been cut and they'll have to become more aggressive in a marketing sense all over the world,' he contends. Carter is chairman and chief executive officer of Oak Industries, a diversified manufacturing and home entertainment company that produces electronic components on Taiwan."

Financial World

"—Oak Industries' National Subscription Television moved into the black last August . . . (Chairman) Carter, a former mechanical engineer, claims that Oak has a leading technological edge in this field: 'I think of Oak as the oracle. NST is the only legitimate vertical organization in the business in that we research and design our own equipment, build it, market it and use it. No one else can say that.' . . ."

OAK Industries

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1979 Second Quarter and Six Months Report

To Our Shareholders:

Highlights of Oak operations over the past few months include:

- second quarter operating results which were the highest for any quarter in the company's history;
- first half results which also set a record;
- continuing growth in our subscription television activities;
- a joint venture which provides new marketing opportunities for our Materials Group;
- new assignments for several company officers, including the appointment of Raymond W. Peirce as President of Oak Industries.

Second Quarter

The record-setting results of second quarter operations were particularly pleasing.

Sales for the quarter were $70,706,000, a 45 percent increase over sales of $48,743,000 in the second quarter of 1978 and 13 percent above sales of $62,752,000 in the first quarter of this year.

Net income for the quarter amounted to $2,730,000, a 136 percent gain over net income of $1,159,000 in the second period last year and a 54 percent increase over net income of $1,770,000 in the first quarter of 1979.

Earnings per share for the quarter were 76¢ but are being reported as 71¢ because of an accounting regulation which requires a provision of 5¢ for the effect of options which have stock appreciation rights. For the second quarter of 1978, earnings per share were 42¢ but were reported as 39¢ after a 3¢ provision for the same purpose. In the first quarter of this year, earnings per share were 59¢, reported as 46¢ after a 13¢ provision.

First Half Results

For the first six months of the year, sales were $133,458,000, a 46 percent improvement over sales of $91,166,000 in the first half of 1978.

Net income for the first half was $4,500,000, an increase of 121 percent over net income of $2,040,000 in the comparable 1978 period.

Earnings per share in the first half amounted to $1.35 but are being reported as $1.18 after a 17¢ provision for the effect of stock appreciation rights. In the first half of 1978, earnings per share were 72¢ but were reported as 68¢ after a 4¢ provision.

Regulations Mar Excellent Performance

The excellent results achieved in the first six months reflect high demand for the services and products of both our major subsidiaries, Oak Communications Inc. and Oak Technology Inc., with particular success noted in our Communications and Materials Groups. Both these Groups achieved record sales and earnings in the second quarter.

In light of this performance, it is frustrating that the full measure of profitability we achieved cannot be officially reported. As explained in our First Quarter Report, this is due to an accounting regulation which requires us to make provision for the possible exercise of stock appreciation rights under a stock option plan which certain of our key employees have been granted as part of their compensation, even though no rights actually were exercised. We said at the Annual Meeting of Shareholders in May that we think this accounting regulation is ludicrous, and our opinion has not changed. We can, however, take comfort in the fact that the earnings per share reported here are a record in spite of the negative effect of this accounting procedure.

STV: Growth and Expansion

Our subscription television operation in Los Angeles—the first and only commercially successful STV system in the world—continues to grow at the rate of 10,000 to 12,000 new subscribers each month. Our objective of having in excess of 225,000 subscribers in Los Angeles by the end of the year appears well within reach.

To this number will be added subscribers to new Oak STV systems in Phoenix and in the Fort Lauderdale/Miami area. Our STV Phoenix operation is scheduled to begin broadcasting in September, and we expect to go on air in Fort Lauderdale by December. If we do not experience unanticipated delays, by the end of the year Oak will have three subscription television systems in operation, thus strengthening our position as the leader in this new form of home television entertainment.

To aid the growth of our new STV operations, we are working with Time Inc. to provide special programming for Oak STV in Phoenix and in Fort Lauderdale. Time will supply us with entertainment programming tailored to our local markets, including motion pictures and special TV shows; this programming will be different than that supplied by Home Box Office satellite service. We are working with Time on this arrangement because, in our opinion, Time has an unequaled library of films and specials and is the best source in the nation for entertainment tailored for special markets.

Joint Venture in Graphite Materials

A product line with a potential for significant sales volume has been provided the Materials Group of Oak Technology through a new joint venture. The new company, Oak-Fothergill Inc., will manufacture products made from graphite materials of the type used in golf clubs, medical equipment and aircraft components. Our partner in the venture is Fothergill & Harvey Ltd., Littleborough, England, a textile firm that has become a major producer of graphite fiber reinforced materials. Oak owns 60 percent of the joint venture. Oak-Fothergill, headquartered in Bennington, Vermont, initially will produce components used in sophisticated x-ray equipment. Resin impregnated graphite material for these products will be purchased from Fothergill & Harvey for the immediate future, but eventually Oak-Fothergill will produce its own material.

New Executive Assignments

The Board of Directors has named three Oak officers to new positions, effective October 1.

Raymond W. Peirce, currently President of Oak Technology Inc., has been elected President of Oak Industries, and will be headquartered in Rancho Bernardo. Gary T. Barbera, presently Group Vice President, Materials, will succeed Mr. Peirce as President of Oak Technology, and for an interim period also will be Group Vice President, Components. His headquarters will be in Crystal Lake. Charles B. Radloff, now Group Vice President, Components, will become Group Vice President, Materials, and will be located in Hoosick Falls.

As President Mr. Peirce will be Chief Operating Officer, reporting to the Chairman and Chief Executive Officer. The separation of these responsibilities reflects the increased duties evolving from our growth.

Mr. Peirce, who has been with Oak since 1961 and is a member of the Board, has held a number of senior management positions within the company which well qualify him for his new position. Mr. Barbera joined Oak in 1968 and was named Group Vice President, Materials in 1976. Mr. Radloff has been with Oak since 1966. Among previous assignments he was President of our Holland operation and President of the Switch Division.

In another executive reassignment, William Q. Douglass has been named President of the Switch Division. Before joining the Switch Division late last year, Mr. Douglass was for 17 years President and General Manager of Harper-Wyman de Mexico.

Dividend Action

On August 3 the Board of Directors declared regular quarterly dividends of 10¢ per share on the common stock and 43¾¢ on the Series C Preferred stock. Both dividends are payable September 10 to stockholders of record August 24.

Outlook

With a backlog at June 30 of $84.7 million, a record high, we move into the last half of 1979 in a strong position. At this time it is premature to speculate on the effect of the recession which, according to federal bureaucrats, officially began in July. With certain exceptions, our incoming order rate is satisfactory; the exceptions are mainly gas appliance controls. Assuming that the recession will have a relatively modest effect on the economy as a whole, as many economists predict, we still expect to report 1979 as a year of record sales and profits.

Respectfully,

E. A. Carter

Everitt A. Carter
Chairman of the Board and
Chief Executive Officer

August 10, 1979

OAK Industries Inc. and Subsidiaries
RANCHO BERNARDO, CALIFORNIA 92128

CONSOLIDATED STATEMENTS OF INCOME

for the Quarters and Nine Months Ended September 30, 1979 and 1978
(Dollars in thousands, except per share data)

	THIRD QUARTER		NINE MONTHS	
	1979	1978	1979	1978
NET SALES	$68,723	$46,021	$202,181	$137,187
Costs and Expenses	64,384	44,561	190,746	132,334
Income before taxes	$ 4,339	$ 1,460	$ 11,435	$ 4,853
Provision for taxes*	1,190	410	3,786	1,763
NET INCOME	$ 3,149	$ 1,050	$ 7,649	$ 3,090
NET INCOME PER SHARE** (After Preferred Dividends)	$ .82	$ .29	$ 2.00	$ .96
(After Preferred Dividends but before provisions for stock appreciation rights)	$ .81	$ .32	$ 2.16	$ 1.03

* In July 1979 the United Kingdom adopted tax legislation which permits an income tax deduction for increases in inventory. In accordance with FASB Statement No. 31, the third quarter tax provision has been reduced $406,000 (equivalent to $.11 per share) to reflect this tax benefit.

** Based on average common shares outstanding of 3,742,059 and 3,291,367 for the quarters ended September 30, 1979 and 1978, respectively, and 3,680,195 and 2,870,716 for the nine months ended September 30, 1979 and 1978, respectively.

Fully diluted net income per common share is $.73 and $.27 for the quarters ended September 30, 1979 and 1978 respectively, and $1.81 and $.85 for the nine months ended September 30, 1979 and 1978 respectively. These per share amounts are based on common shares that would be outstanding if dilutive convertible issues and stock options were exercised at the beginning of the periods with income adjusted accordingly. Such shares outstanding would be 4,291,513 and 3,706,124 for the quarters ended September 30, 1979 and 1978, respectively, and 4,228,491 and 3,372,791 for the nine months ended September 30, 1979 and 1978, respectively.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in thousands)

	Sept. 30, 1979	Dec. 31, 1978
Current Assets	$121,964	$ 97,844
Current Liabilities	60,216	48,194
Working Capital	$ 61,748	$ 49,650
Plant and Equipment—Net	67,009	50,770
Other Assets	15,800	13,658
	$144,557	$114,078
Less—Other Liabilities	8,408	6,269
Long-term Debt	70,264	49,781
Shareholders' Investment	$ 65,885	$ 58,028

It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the company's latest annual report to shareholders.

Oak Featured in Major Media . . .

Excerpts from recently published news and feature stories discussing Oak and its activities.

Phoenix Gazette

"Oak Industries Inc., the company behind ON-TV subscription television service which went on the air here this month . . . is a two-part company: Oak Technology, whose branches still manufacture rotary switches and a large line of other controls and components, and Oak Communications, which (chairman) Carter regards as the key to fast growth. Oak Communications and the over-the-air subscription TV business it has developed in the past two years have made a new company of Oak, Carter said. Oak started a new era. It became a service company dedicated to bringing a new dimension to the field of entertainment."

C-ED Magazine

". . . but if teletext is an exciting advance in broadcast television, it is equally if not more exciting to the cable television industry. CATV operators see it as a promising way to expand the amount and variety of data services that can be marketed to the home. And Videotext, a set-top teletext adaptor system now in final engineering development by the CATV Division of Oak Communications Inc., is designed to make those expanded CATV services a reality."

N. Y. Journal of Commerce

"Much of the excitement about over-the-air pay television focuses on its expansion into vast untapped markets of TV homes not served by cable. . . . But while the picture brightens primarily for the growth of pay or subscription television (STV) in the U.S., there also are opportunities in overseas markets. Oak Industries Inc., which claims to be the biggest over-the-air pay television operator in the world, is in negotiations with officials of various foreign governments to set up its STV system."

Chicago Tribune News Service

"San Diego . . . is pushing to get more corporate headquarters and high-technology firms. Oak Industries Inc., Wickes Corporation and Signal Companies all have moved here. E. A. Carter, chairman of Oak Industries, said the company chose San Diego for its headquarters and research laboratories because it appeals to technicians and middle management. 'We felt we could attract more and better people to San Diego than anywhere else,' he said."

OAK Industries

1979 Third Quarter and Nine Months Report

To Our Shareholders:

This continues to be a year of records for Oak.

In the third quarter we again obtained record operating results, as we have each quarter this year. Moreover, sales and net income through the nine months have exceeded those for any full year in our history.

In addition to achieving record results, in October we concluded the most successful common stock offering we have yet made. The sale realized $34,860,000 in new capital and brought us to a financial milepost by giving us, for the first time, more than $100,000,000 in shareholders' equity on our balance sheet.

Third Quarter Results

Sales in the third quarter were $68,723,000, an increase of 49% over sales of $46,021,000 in the third quarter of 1978.

Net income in the third quarter was $3,149,000, a record for any quarter. In the third quarter of 1978, net income was $1,050,000.

Earnings per share for the quarter were 81 cents but are being reported as 82 cents. This is due to accounting regulations which require a 1 cent increase in quarterly earnings because the price of our common stock declined during the quarter. (These regulations, which concern provisions for the effect of options which have stock appreciation rights, were discussed in our Second Quarter Report to Shareholders.)

For the third quarter of 1978 earnings per share were 32 cents but were reported as 29 cents after a 3 cent provision for the same purpose.

Nine Months Results

Sales for the nine months ended September 30 were $202,181,000, a 47% improvement over sales of $137,187,000 in the similar period last year.

Net income for the nine months was $7,649,000, which compares to net income of $3,090,000 for the first nine months of 1978.

For the nine months, sales and net income were higher than similar results for any full year in our history.

Earnings per share for the nine months were $2.16 but are being reported as $2.00 due to a 16 cent provision for the effect of stock appreciation rights. For the comparable period

in 1978, earnings per share were $1.03 but were reported as 96 cents after a provision of 7 cents for the same purpose.

Net income for the third quarter and nine months was increased by $406,000, equal to 11 cents per share, due to a recent change in British tax laws which permit an income tax deduction for increases in inventory.

Broad Improvement

Third quarter results reflect improved performance in all our major market segments, and were achieved in spite of a five week strike at Harper-Wyman de Mexico, now settled.

Progress in Oak Communications was highlighted by several moves to expand subscription television operations. In September we inaugurated STV service in Phoenix, Arizona, over Channel 15 (station KNXV). Called National Subscription Television/Phoenix, and marketed under the "ON-TV" name, the service began with 1,500 subscribers and a backlog of 2,000 customers awaiting installation of Oak decoders. In the weeks since its inception, growth of NST/Phoenix has been gratifying.

In Ft. Lauderdale, Florida, we purchased television station WKID, subject to FCC approval, and will begin an STV service for the Ft. Lauderdale-Miami area before the end of the year.

We also concluded negotiations for a joint venture to provide subscription television to the Ft. Worth-Dallas area. Our partner, Channel 21 Inc., a Texas corporation, will own and operate the television station being constructed in Ft. Worth to broadcast the service.

Our joint venture STV operation in Los Angeles, the largest subscription television system in the world, continues to grow at a rate which will enable us to exceed our goal of having 225,000 subscribers in Los Angeles by the end of the year.

A highlight of Oak Technology operations during the third quarter was the Materials Group performance. There was particularly strong demand for laminates for printed circuit board applications, with the result that sales for the Group increased 45% as compared to sales volume in the third quarter of 1978.

Stock Offering

The great success of our stock offering in October was notable on several counts. When we filed our registration statement on September 17, we anticipated selling 850,000 new

shares of Oak common stock. However, the acceptance of our offering was such that we actually sold 1,200,000 shares, at a price of $30.50 per share. This was an increase in price of more than one dollar from the day the offering was announced. The fact that our stock price rose during the registration period, and the fact that we were able to sell 350,000 more shares than planned, are indications of the new level of interest in Oak being shown by the investment community.

The capital raised through the stock offering will be used to expand our STV operations and to provide new manufacturing facilities.

Backlog

Our backlog situation continues to improve. At September 30 our backlog was $91 million. This compares to a backlog of $84.7 million on June 30 and a backlog of $51.4 million on September 30, 1978.

Dividend Action

On November 2 the Board of Directors declared regular quarterly dividends of 10 cents per share on the common stock and 43¾ cents on the Series C Preferred stock. Both dividends are payable December 10 to stockholders of record November 26, 1979.

Outlook

Indications are that operations for the fourth quarter of the year should continue the course set in the first three quarters. Only one market area, gas appliance controls for recreational vehicles, has shown measurable weakness; our other markets are active, with good demand levels. We expect this pattern to hold, and look forward to reporting the greatest year Oak has had.

Respectfully,

E. A. Carter

E. A. Carter
Chairman of the Board and
Chief Executive Officer

November 9, 1979

1976 Highlights

	1976	1975
Net Sales	**$144,138,398**	$113,013,625
Income before Income Taxes	**$5,358,430**	$1,079,056
Provision for Income Taxes	**$2,733,000**	$60,000
Net Income	**$2,625,430**	$1,019,056
Per Common Share*	**$1.39**	$.41
Cash Dividends Paid—Common Stock	**$655,588**	$655,471
Per Common Share	**$.40**	$.40
Shareholders' Investment	**$40,682,949**	$34,471,816
Average Common Shares Outstanding	**1,638,919**	1,638,676
Number of Shareholders (at year-end)	**4,333**	4,631
Number of Employees (at year-end)	**7,966**	7,372

*Pro-forma net income per common share, assuming full conversion of stock options, debentures and preferred stock, would be $1.30 for 1976 and $.41 for 1975.

CONTENTS

To Our Shareholders:

Record sales, improved profitability and considerable progress in development of four new activities were the highlights of 1976 operations.

Sales, at $144 million, were 11 percent over the previous record, set in 1974. Net income of $2.6 million was achieved despite development costs attendant to the new ventures and the negative impact of devaluation of the Mexican peso and British pound.

In short, 1976 was a much improved year over 1975, and set the stage for continuing growth in the year ahead.

Progress In New Activities

Three of the new activities were centered in our Materials Group. In Taiwan and South Korea, two new laminating operations completed their start-up phase and entered full production, with good sales results. Both have excellent prospects for growth, since in their respective countries they have no domestic competition and have demonstrated ability to produce quality products.

Oak-Mitsui Inc., a tri-venture operation located at Materials Group headquarters in Hoosick Falls, New York, has had its first test run of electrodeposited copper foil, a basic material used by the Group. This facility will be a major asset to the Group as it expands its line of copper-based products.

National Subscription Television

Our fourth new activity marks a significant departure from the usual business of Oak. It is National Subscription Television (referred to in last year's annual report as World Pay Television), a joint venture formed to provide over-the-air subscription television programming.

NST commences operations in Los Angeles on April 1, 1977. It will present its subscribers with varied entertainment, including first run movies, sport shows and other special events not available on regular television. The programs NST broadcasts will be aired in a "scrambled" mode, which can be viewed only on television sets equipped with a unique decoder converter developed by Oak. In fact, the technical aspects of this type of television broadcasting include many state of the art innovations developed through Oak research and engineering.

Our partner in this venture, Chartwell Communications, is associated with many successful television shows, including "All In The Family," "Maude" and "Mary Hartman, Mary Hartman." The combination of Chartwell's programming expertise and Oak's technical know-how has created a new entertainment medium which offers substantial growth potential.

Obviously, the success of this concept will depend on its acceptance by the television viewing public, but there is every reason to be confident that this new business will become a significant factor in Oak's future.

International Operations

Despite political and economic unrest in many countries in which Oak operates, our offshore companies did well in 1976. The volume and profit created by these operations continue to be important to our overall results.

Your company's management still firmly believes in the free enterprise system and in the necessity of free international trade. We remain committed to these beliefs in spite of the arguments opposing U.S. participation in the international arena put forth by labor organizations and certain elements within government.

We think the record shows clearly that for business in general—as it certainly is for Oak in particular—multinational operations provide many benefits. Unfortunately, we also must recognize that in some countries a nationalistic attitude is developing which presents serious operating difficulties for foreign firms. We will continue to meet these problems as long as our effort is economically justifiable, but we are prepared to divest ourselves of operations in those countries which present us with a nonproductive situation.

Financial Review

Reflecting the upturn in our profitability, return on shareholders' investment in 1976 amounted to 7.6 percent, an improvement over that achieved in 1975.

Capital expenditures for plant and equipment in 1976 amounted to $7.2 million, the same as was spent in 1975.

Our backlog at December 31, 1976, was $35.3 million. This figure at the end of 1975 was $32 million.

Dividend Action

The regular common stock quarterly dividend of 10 cents remained in effect through 1976. On February 17, 1977, the Board of Directors increased the regular quarterly dividend to 12½ cents per share.

Outlook

While we do not expect our new activities to be profitable in 1977, we are confident we can absorb the remaining development costs of these ventures and still report significant improvement in sales and profits. This assumes the national economy will be at least as strong as it was in 1976, an assumption which seems reasonable at this writing.

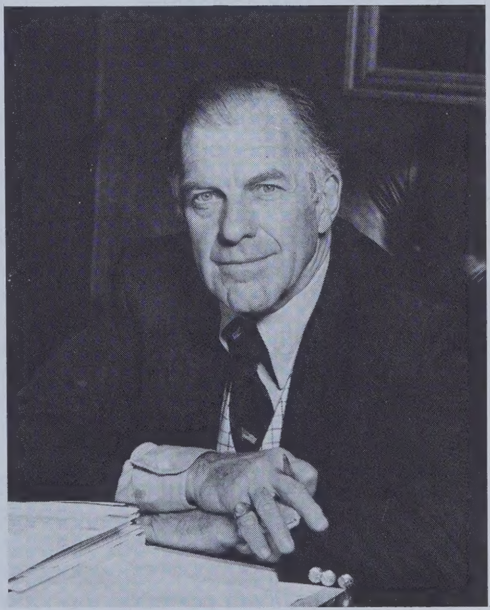
As always, we appreciate the continued support of the loyal and vigorous employees who make up the Oak family. They performed admirably in 1976; for this we are grateful.

Another word of gratitude is due the dedicated and talented members of our Board, who have supported and encouraged our moves into exciting new ventures while keeping a watchful eye on our basic business.

Respectfully,

E. A. Carter

E. A. Carter
Chairman of the Board and
Chief Executive Officer
March 11, 1977



E. A. Carter

Review of Operations

Components Group

The turnaround in the U.S. economy provided the environment for a strong performance by the Components Group in 1976. Sales improved significantly, accounting for 35 percent of total corporate sales, with all operations contributing to the increase. Group profitability also rose.

The Group produces a broad line of components used in a variety of consumer, industrial and military end products. Most of its sales come from U.S. operations, which include Switch Division, McCoy Electronics Company, Illuminated Products Inc., Techno-Components Corp. and Selectronics Division. Two other divisions, Hart Indiana and Win-West Plastics provide parts for other Oak units and sell to outside customers.

Offshore operations of the Group include Oak Far East Corporation, in Taiwan, O/E/N India Limited, and a new activity, Oak Brasil Industrial Limitada.

U. S. Operations

Switch Division is the largest U.S. manufacturer of rotary switches. It also produces pushbutton and keyboard switches, relays, solenoids, other electromechanical devices and thick film circuits, and makes parts for other Oak companies.

Main applications for these products are in computers, computer peripheral equipment, test and measurement equipment, communications and avionics equipment and business machines.

The division's ability to supply this broad line to markets which had good recovery in 1976 provided it with a 30 percent improvement in sales and a commensurate increase in profitability.

Recent new products helped Switch Division's marketing effort during the year. Sales of the 300 Series pushbutton switch increased, particularly for computer and computer peripheral equipment applications. The well received anti-static keylock switch provided an entry into point-of-sale terminal applications. A new market for Oak, citizens band radios, was entered with introduction of the 10-4 communicator switch. With 40 detent positions, the 10-4 is suited to the new 40 channel CB radios, and its capacity qualifies it for many other applications.

In the division's traditional rotary switch line, emphasis was on development of innovative printed circuit board designs which provide assembly labor saving economies for customers.

Improved manufacturing productivity was achieved during the year with further implementation of the MICRO program begun in 1975. MICRO is a computerized system for manufacturing and inventory control reporting.

McCoy Electronics achieved higher sales volume in 1976, but profitability was affected by costs of a program to increase capacity for production of miniaturized products and expenses related to a high priority military program.

McCoy is a leader in the design and manufacture of high and low frequency crystals, crystal filters, oscillators and related devices. These are used for frequency control in communications equipment, guidance controls, surveillance, navigation and transmission equipment and computers.

Filters and oscillators accounted for most of the volume increase; sales of the latter product more than doubled. An important reason for this was more sophisticated use of McCoy's computer to design oscillators for specific customer applications—a technique the company pioneered. Sales of crystals also increased, particularly for avionics and data communication uses.

Much of McCoy's success is due to its attention to new product development and improving its manufacturing technology. Advances were made in both areas during the year. New product activity included broadening the line of microcircuit thick film hybrid oscillators and design of a line of group delay filters for computer controlled communication systems.

Internal improvements included development of a resistance welding seam sealer which will be installed early in 1977. The machine will reduce the labor involved in sealing crystal and oscillator packages. The company also made improvements in finishing and testing instrumentation used in production of monolithic filter crystals; these improvements will substantially increase output per man-hour.

Illuminated Products Inc. recorded a sales improvement for the year, but profitability fell off because of expenditures related to moving to a new location and costs of development of a new product line.

IPI produces lighted pushbutton switches, indicator lights and miniature incandescent lamps. These are used in such applications as communications, data processing and medical equipment, test instrumentation, military and commercial aircraft instrument panels, and industrial equipment.

Increased sales volume came from stronger markets for pushbutton switches and indicator lights; lamp sales decreased because of competition from low cost imports. Intensified market coverage was a factor in the volume improvement; this was achieved through expansion of the company's direct sales force and addition of distributor outlets. Market trends also helped IPI; there was a move toward more usage of low power switches and an upturn in use of momentary-type switches rather than snap-action switches.

An important step for IPI was introduction of a line of strobe lights, which represent a new product family for the company. Strobe lights flash at regular intervals with high intensity, and are most frequently used as position indicators or as warning or alarm signals. The first model marketed by IPI is a security strobe which provides premises identification when triggered by a burglar or fire alarm. A second model, soon to be marketed, is a warning light mounted on a pole for use on recreational vehicles such as campers and snowmobiles.

Record sales and substantially improved profitability highlighted the year's performance of Techno-Components Corp.

Techno produces high reliability miniature and subminiature square wirewound and film trimming potentiometers, offered in a wide range of styles and configurations. Potentiometers are used to balance and control electrical circuits. Their primary applications are in guidance and navigation equipment, communications systems, airborne computers and flight recorders and industrial test equipment.

Much of the sales improvement came from film units, which now account for almost half of Techno's volume.

During the year Techno installed a thick film department to produce elements previously purchased from outside sources. This new capability provides several important advantages. It allows Techno to meet customer requirements for small orders which outside vendors generally are reluctant to handle, and will provide cost reductions and faster deliveries in many cases. The new department also gives Techno the ability to develop and use new materials in thick film processes, thus shortening the time required to put new production units on the market.

The new film department also will aid Techno in development of new products, particularly a line of rectangular units which the company plans to introduce late in 1977.

The Selectronics Division was reorganized in 1976 to substantially reduce Oak's participation in the U.S. television tuner market. However, manufacturing, engineering and research will continue for offshore customers.

The U.S. market no longer offers profit opportunity for Oak, since most set manufacturers have either begun making their own tuners or are importing TV chassis with built-in tuners from offshore facilities.

Currently Oak is negotiating a joint venture operation in Korea for the manufacture of television tuners. When this operation begins, the Selectronics Division will provide technical and marketing assistance, and the division will provide services to the new Oak tuner parts manufacturing operation in Brazil.

Two divisions in the Components Group serve as suppliers of components to other Oak operations, although both also serve outside customers. Hart Indiana Division produces tools, dies and metal stampings. Win-West Division supplies thermoplastic and thermoset plastic parts.

Both operations performed well during the year, providing efficient and reliable service to Oak divisions and to their outside customers. Hart Indiana had its best sales year, developing enough intracompany and outside business to require additional capacity. Construction of a 7,500 square foot plant addition was begun in November.

Offshore Activities

Operating in a stronger economy, O/E/N India recorded higher sales and maintained profitability. Its line of switches, relays and related components for industrial, military and consumer appliance markets was well received, and increased market penetration was achieved for several products.

Strong measures the government has taken since mid-1975 to control inflation, increase exports and stimulate economic growth have had some success, with favorable results for O/E/N India.

The company made notable progress during the year in improving its distribution system and increasing manufacturing productivity. New product development was slower than planned, but this activity will increase in the coming year, particularly in regard to products for export.

The Components Group's other major overseas operation, Oak Far East Corporation, also had a successful year. Oak Far East serves as the Group's offshore manufacturing facility. It produces television tuners, miniature lamps and integrated circuits, and assembles television converters for the Oak CATV Division.

In its first full year of operation in the new Taiwan facility the corporation purchased in 1975, Oak Far East has developed the technical know-how and flexibility needed to carry on a variety of manufacturing processes, and has clearly demonstrated its ability to provide quality products at reasonable cost.

Oak Brasil was formed in late 1975 to provide Oak with a manufacturing base in that country. The first product line intended for the operation is television tuner components for manufacturers of television sets in Brazil. The timetable for this activity was delayed in 1976 due to changes in the Brazilian economy and revisions in government regulations. The basic objective for Oak Brasil remains unchanged, however, and it is expected that the original plan will be carried out in 1977.

The Outlook

Most Component Group products are sold to markets which are expected to contribute significantly to growth of the U.S. economy in the years immediately ahead. Beyond this, all major Group operations have planned programs which should provide growth that is better than average within their respective industries.

The Switch Division, for example, is preparing for a technological change in its markets, this being a transition from electromechanical switching to solid-state devices. McCoy Electronics continues to develop products which win it regard as a trend setter in design of frequency control devices. Illuminated Products is expanding its new strobe light line to capitalize on market opportunities now developing. Techno's new thick film department is a resource for strengthening the company's leadership position in the manufacture of high reliability potentiometers. Overseas, O/E/N India is positioned to participate fully in the growth of the industrial segment of India's economy.

All these factors combine to indicate continued progress for the Components Group.

Controls Group

Capitalizing on the general economic improvement in 1976 and the attendant increase in consumer spending, the Controls Group had an excellent year. Sales increased substantially over 1975, making up 35 percent of total corporate sales, and profitability improved.

The Group includes one domestic and six offshore operations, in Canada, Mexico, Venezuela, England and South Africa. With this makeup, Controls Group results reflect international economic conditions more than the other Oak groups. The Group also is more sensitive to trends in consumer spending, since electric and gas cooking ranges and other home appliances are major end products utilizing Group controls and devices.

U.S.A.

The most significant 1976 performance within the Group came from the U.S. operation, Harper-Wyman Company, which produces controls and components used in gas and electric ranges, gas grills and other residential appliances, and similar products for appliances used in recreational vehicles.

Marking the end of a two-year period of depressed conditions in the major appliance market, Harper-Wyman achieved record sales and earnings.

A major factor in the performance was, of course, the improvement in the U.S. economy, which provided the environment for increased sales to manufacturers of do-

mestic appliances. A sharp upturn in the recreational vehicle market also helped Harper-Wyman. But just as important as these economic factors was the fact that the company increased its share of the controls market for gas and electric ranges.

At the end of the year Harper-Wyman increased its manufacturing capacity by leasing a 30,000 square foot plant in Sterling, Illinois, near its principal plant in Princeton. Operations performed at a small assembly plant in Matamoros, Mexico, are being transferred to Sterling, and full production should be underway by mid-1977.

Canada

Harper-Oak Limited had increases in both sales and profits compared to its 1975 results. Harper-Oak manufactures thermostats and switches for residential electric ranges, produces rotary appliance switches, and manufactures Oak switches for the general industrial market. With this group of products Harper-Oak serves two principal markets, electric appliance manufacturers, and electronic equipment makers. Sales to both groups increased in the year, and for the second successive year Harper-Oak increased its share of the market for electric range controls.

Latin America

Oak serves the controls market in Latin America through two operations.

Harper-Wyman de Mexico produces an extensive line of valves, thermostats, pilots and other components for residential gas ranges, and manufactures valves and other components used with LP gas tanks and cylinders.

The company achieved an increase in sales volume in 1976 despite a series of difficulties, including a four-week strike of unionized personnel in midsummer and the government's sudden peso devaluation.

Operating in a more stable economy, Harper-Wyman de Venezuela achieved satisfactory sales and profitability. The company produces top burner valves and thermostats for residential gas ranges. While the local market for these appliances remains strong, Harper-Wyman de Venezuela has attempted to broaden its outlets through exporting to other South American countries. Some success was achieved in 1976 with sales to Brazilian customers.

England

The United Kingdom market for controls is served by two Oak operations in England. Although substantial growth for these companies has been inhibited by Britain's lingering economic problems, both reported improved sales and profits for the year.

Diamond H Controls Limited manufactures energy regulators, thermostats and other electric controls sold to the appliance market. The company also serves the capital goods market through a line of relays, switches, crystal products and electronic control devices.

Diamond H's sales of controls for consumer products held up well during the year. In the capital goods market demand was steady for switches and relays, and the year saw the launch of production of the company's special solenoid for automobile doorlocks.

While profitability was satisfactory, Diamond H experienced a slight contraction in profit margin, with the limited price increases obtainable being insufficient to offset higher costs brought on by inflation.

Harper-Wyman Limited produces valves, filters, controls and other components used in gas ranges and other gas-fueled appliances. The company achieved a notable increase in sales of controls and its share of market for this line, and sales of filters to European customers also increased.

South Africa

Despite the civil unrest that focused world attention on South Africa in 1976, the economy moved along at a good pace, with the result that Oak Industries (S.A.) Pty., Ltd. achieved a record year in sales and saw its profits improve substantially over 1975.

In addition to making controls and components used in electric ranges and other electric appliances for the consumer market, Oak South Africa manufactures low power switches and other components for the electronics equipment market, and produces transformers and other electrical equipment related to power distribution.

While an improving economy was a factor in the company's success in 1976, internally generated factors had more to do with its performance. One of these was the strong market position Oak South Africa has obtained with many of its product lines, a condition which allowed it to improve market share. A second factor was the cumulative effect of programs aimed at cost cutting and improved manufacturing efficiency. New product development also contributed to the year's performance, evidenced by successful introduction of mini-substations for electrical power distribution systems.

The Outlook

Further growth of the Controls Group is expected, with part of the impetus coming from internal programs for new products and deeper market penetration, and part coming from external economic and political factors.

Throughout the Group, development of new products and new applications for existing products is a constant activity. In the United States, work continues on design of a low-cost spark ignition system which would replace the pilot light on gas ranges. In Canada, Harper-Oak will soon begin production of a snap-acting thermostat which can be used with electric/gas and electric range ovens. This will be sold in Canada and the U.S. In England, Diamond H Controls is broadening its line of thermostats to serve additional segments of the appliance market, particularly refrigerators and freezers. Oak South Africa is working with a government agency on development of a pushbutton dialing system for telecommunication networks.

In addition to these internal activities aimed at providing growth, the current trend in external factors affecting the Group is generally positive.

In the United States, the anticipated upturn in new housing construction will create a higher demand for appliances which utilize Harper-Wyman components.

An improving Canadian economy will provide Harper-Oak Limited with opportunities to increase its market share.

In Latin America, government policies will have an important effect on Oak operations. In both Mexico and Venezuela, the trend is toward more nationalistic economic controls. If carried to extremes, this could negatively affect future growth. Balancing this situation, however, is the fact that both economies continue to provide good demand for appliances which use Oak controls and components.

In Britain the economic situation shows signs of slight improvement. As this improvement continues, natural factors should afford good growth potential for Diamond H Controls in the consumer and industrial sectors it serves. Similar growth is seen for Harper-Wyman Limited, partly as a result of the government's conversion of the country to North Sea natural gas, due for completion within the next year.

In South Africa, major new markets will be created as the government proceeds with its program for establishing native homelands. These will require extensions of the electrical power distribution network and thus provide new demand for electrical products Oak South Africa manufactures. As the power network spreads, demand will increase for consumer products which utilize the company's controls.

Materials Group

Increased sales, improved profitability, establishment of a second base in the Far East, and the building of an important new facility to produce materials for new products were highlights of 1976 operations for the Materials Group. It was responsible for 21 percent of total corporate sales.

The Group has two basic capabilities. It develops and manufactures a broad line of laminates and materials used principally in printed circuit boards and flexible printed circuit applications. It also is a converter of polytetrafluorethylene (PTFE), a material similar to Dupont's Teflon, producing a wide line of PTFE products.

Laminates and Materials

The Materials Group provides one of the broadest lines of laminates and specialty materials used in printed circuit boards, the basic building block of virtually all electronic equipment. These products are produced by two Oak operations in the U.S., Atlantic Laminates Division and Circuit Materials Division, and two operations in the Far East, Oak Industries Korea Ltd. and Oak Materials Taiwan Ltd.

Reflecting a strong rebound in the electronics industry, Atlantic Laminates almost doubled its volume and returned to profitability. Higher sales came from all the division's basic product lines—rigid epoxy laminates, multilayer materials and microwave dielectric materials.

One of Atlantic's newest products, AL-910, a glass composite material for printed circuit boards, was particularly successful in 1976. Atlantic introduced this material to the industry as a less expensive alternative to woven glass laminates. Another factor

in the sales performance was Atlantic's success at implementing its concept of fast customer service from regional facilities in New Hampshire, New York and California. Besides increasing sales of rigid laminates, Atlantic widened its share of market for multilayer materials and microwave materials.

Sales and profits also improved substantially for Circuit Materials. The division's capabilities lie in the formulation of proprietary adhesive systems and coatings, and development of proprietary copper treatments. Products of the division include adhesive coated plastic films and metal foils, dry film adhesives, and flexible laminates. These products are used in flexible printed circuit applications.

Higher sales to the U.S. automotive market and increased exports were principal factors in Circuit Materials' volume improvement. The major automotive application of the division's flexible laminates is in dashboard circuitry.

During the year Circuit Materials restructured its distribution system, switching from sales representatives to salaried sales personnel. This move provided more effective contact and communication between the company and its customers, and helped obtain new business.

Oak Korea substantially increased sales of its electronic grade phenolic laminates and epoxy/glass laminates. In the short time it has been operating, Oak Korea has been most successful in serving the local market, and is now regarded as the leader in providing laminates to Korean printed circuit board manufacturers.

While maintaining this position, Oak Korea is placing more emphasis on export markets in southeast Asia, and is developing products and distribution channels which will enable it to profitably serve this region.

Oak inaugurated a second laminate manufacturing facility in the Far East when Oak Materials Taiwan began production in midyear. The operation produces phenolic paper laminates and epoxy/glass laminates. Since it is the only laminating facility in Taiwan, the company is in an excellent position to serve the local printed circuit board market, and it intends to do this with a line of high quality products priced to compete against imported laminates.

Start-up of production marked the end of the first phase in establishment of Oak Materials Taiwan. Work progresses on the second phase, which involves installation of additional equipment to broaden capacity and aid development of new products. This phase will be completed in 1977.

Oak-Mitsui Inc.

An important new capability for the Materials Group was initiated early in 1976 with the formation of Oak-Mitsui Inc., a triventure company which will produce electrodeposited copper foil. Through this venture the Group will be assured of adequate supplies of foil it needs for existing products and for new products.

Conversion of a 40,000 square foot plant in Hoosick Falls, New York, was virtually completed by year-end, and the first test run of foil was produced early in 1977. Production runs will begin in mid-1977, and the facility will be in full production by the end of the year. For the immediate future, all copper foil produced will be utilized in Materials Group products.

Oak's partners in Oak-Mitsui are the Mitsui Mining and Smelting Company, a unit of the second largest industrial corporation in Japan, and The Anaconda Company, the leading U.S. firm in the copper industry.

PTFE Conversion

The Materials Group's expertise in converting PTFE and other resins and substrates is evident in three activities—design and manufacture of end products sold to direct customers, production of basic shapes sold to converters, and machining of custom parts to customer specifications.

End products of PTFE are produced by the Fluorglas Division. In tune with the general economy, the division saw an improvement in sales in 1976. Significant contributors to the volume increase were thread seal tapes for the plumbing market and PTFE coated glass fabrics used in electrical insulation, packaging and other applications. Sales of the latter product were buoyed by development of a close tolerance fabric for specialized electrical applications.

Other major product lines of the division include extruded PTFE electrical tapes sold to wire and cable manufacturers; pressure sensitive adhesive tapes for packaging, electrical insulation and general industrial uses; PTFE coated yarn products sold to

wire and cable manufacturers and filter bag manufacturers; PTFE/glass conveyer belts; and the Chem-Therm line of specialty corrosion resistant laminates used in tank lining applications in the chemical processing industry.

Increasing market interest was shown in the division's ongoing program to develop materials for use in air and cable supported structures.

Production of basic PTFE shapes and machining of custom parts is the specialized activity of Tri-Point Division. The increase in sales recorded by the division in 1976 was due largely to more intensive marketing of basic shapes such as rod, tubing and sheet. These accounted for more than half of total division sales and represented a significant increase in market share. Internal programs to improve operating efficiencies and reduce costs also contributed to Tri-Point's performance.

The Outlook

Growth is expected in the Materials Group through a variety of efforts. New markets for existing products are being developed, as exemplified by work now underway on new pipe and vessel lining applications for Chem-Therm. New products, such as a flame retardant laminate, will attract new customers. Diversification will open new markets; the Fluorglas Division's new pressure sensitive, double face glass tape for plasma metalizing is an example of non-PTFE product possibilities. More sales to export markets will improve volume; this is a common goal of Oak Korea and Oak Materials Taiwan. Improved technology, such as Atlantic Laminates' program to reduce resin cost, will provide internal efficiencies to strengthen the Group's competitive position.

In sum such efforts are expected to improve the Group's standing as a leader in its field.

Communications Group

The Communications Group includes two manufacturing operations, the CATV Division, headquartered in Crystal Lake, and Oak Holland B.V., serving European customers. Both encountered downturns in 1976, with the result that Group sales and profits were below 1975 levels. It accounted for 9 percent of total corporate sales.

The major product line for the Group is a family of home terminals, called converters, used to receive regular and pay cable television programs. For different reasons, markets for these products in the U.S. and Europe declined in 1976.

In the U.S. the market downturn came in the first and second quarters. It resulted from a slowdown in expansion of existing cable television systems, and a low rate of construction of new cable systems. These factors significantly reduced requirements for home terminals. Conditions were reversed in the fourth quarter, but the upturn could not fully offset the earlier decline.

In Europe, home terminal sales dropped off due to saturation of the Belgian market and lack of progress in establishment of cable systems in other countries of western Europe.

U.S. Product Line Broadened

While financial results for the CATV Division were disappointing, the division made notable progress in several areas, particularly new product development. This activity resulted in new designs for equipment serving all four segments of the division's market.

The broadest segment, of continuing importance in terms of volume, is the market for basic home terminals which receive regular cable programs. For this segment the division introduced the Trimline II, an improved varactor (solid-state) model which has several features not previously available in standard converters.

The second market segment includes terminals for receiving pay cable programs. New versions of the Econo-Code and Multi-Code converters are designed for this application.

The third segment, just developing, involves terminals for receiving over-the-air subscription television programs. The Oak STV decoder developed for this market was designed specifically for Oak's new National Subscription Television operation in Los Angeles. Representing state-of-the-art capabilities, the STV unit converts fre-

quencies, decodes scrambled video and audio signals, and is addressable, meaning it can be turned on or off from the broadcasting studio.

The fourth segment involves equipment for multipoint distribution systems, or MDS as it is known. MDS is a microwave communication system that distributes pay television programming to selected receiving points in large metropolitan areas. Such systems need terminals which provide security against program pirating. For this market, the CATV Division developed a low cost home terminal called the Mini-Code which decodes a scrambled video signal.

Within the industry the Communications Group is uniquely equipped to carry on this varied product development work, since it can utilize its European research laboratory in Dordrecht, Holland, its development lab in Madison, Wisconsin, and the CATV Division's own engineering facility.

As planned, there was increased utilization of the corporation's manufacturing facility in Taiwan during the year, complementing production from the division's Elkhorn, Wisconsin, plant.

Progress in Europe

In light of the lagging market for standard home terminal devices in Europe, Oak Holland is emphasizing development of specialty CATV products. Among its current projects are a monitoring system for CATV networks that includes smoke and fire detectors; an FM converter for a cable system; a more portable version of the spectrum generator developed as a measuring instrument for CATV system analysis, and a multiple CATV tap to be used in network construction.

In addition to these new projects, Oak Holland continued work on DIVA, the name given a new concept in intrabuilding communications which will be marketed through a joint venture with a German firm. The concept involves a two-way broad band information distribution system for the transmission of television and radio signals, fire and burglar alarms, closed circuit TV monitoring and intercom communications.

As these projects reach the marketing stage, they will complement Oak Holland's continuing development of new European markets for its line of home terminals.

While maintaining its position as a leader in the manufacture of CATV products, Oak Holland has continued to develop its second line of business, which is the manufacture of Oak-designed switches and the distribution in Europe of products made by other Oak operations.

The Outlook

In the United States, and in Europe to a lesser degree, there is great potential for growth of the CATV industry. The number of homes receiving cable television increases steadily, and the number of cable subscribers paying an additional premium for special programming increases at an even higher rate.

Beyond the opportunity represented by cable subscribers lies an even larger potential audience for over-the-air subscription television.

As the market widens, technological requirements for home terminals will increase. All indications point to greater need for more effective subscriber control, program security, prevention of theft of home terminals and the addition of non-television services. The Communications Group has proven its ability to develop products to meet these requirements, and it will continue doing so.

Heller-Oak Communications Finance Corp.

Heller-Oak provides financing to the communications industry, supplying funds for new system construction, expansion of existing systems, acquisitions, equipment purchase and other activities. The company is a joint venture with Walter E. Heller International Corporation, a major commercial finance institution.

The company had a good year in 1976, reporting an increase in operating revenues, growth in its total portfolio, and continuing profitability. While there was relatively little new plant construction in the CATV industry, Heller-Oak's major market, there was good pace to acquisition and refinancing activity. This provided the major impetus to Heller-Oak's growth. An additional factor was an increase in financing projects in the radio and television segments of the market, which Heller-Oak entered in 1975.

The outlook continues to be favorable for Heller-Oak. Growth of the CATV industry and new opportunities provided by the company's expansion into other broadcasting areas should enable it to continue reporting growth and profitability.

OAK Financials

CONSOLIDATED STATEMENTS OF INCOME
for Years Ended December 31, 1976 and 1975

	1976	1975
NET SALES	$144,138,398	$113,013,625
Cost of Sales	110,999,234	88,030,640
GROSS INCOME	33,139,164	24,982,985
Selling, engineering and administrative expenses	25,459,758	21,935,383
INCOME FROM OPERATIONS	7,679,406	3,047,602
OTHER INCOME (EXPENSE), net		
Interest expense	(2,569,269)	(2,508,963)
Miscellaneous, net (Note 1)	248,293	540,417
	(2,320,976)	(1,968,546)
INCOME BEFORE INCOME TAXES	5,358,430	1,079,056
Provision for income taxes (Note 8)	2,733,000	60,000
NET INCOME	$ 2,625,430	$ 1,019,056
NET INCOME PER COMMON SHARE (Note 9)		
Primary	$1.39	$.41
Pro-forma	$1.30	$.41

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
for Years Ended December 31, 1976 and 1975

	1976	1975
BALANCE, beginning of year	$ 30,558,213	$ 30,540,880
ADD (DEDUCT)		
Net income for the year	2,625,430	1,019,056
Cash dividends—		
Common ($.40 per share)	(655,588)	(655,471)
Preferred ($4.375 per share)	(345,705)	(346,252)
BALANCE, end of year (Note 3)	$ 32,182,350	$ 30,558,213

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
for Years Ended December 31, 1976 and 1975

	1976	1975
SOURCES OF FUNDS		
From operations—		
Net income	$ 2,625,430	$ 1,019,056
Depreciation and amortization	5,059,984	4,350,772
Decrease in deferred income taxes	(306,000)	(61,000)
Increase in accrued pensions and deferred compensation	92,193	179,538
Increase (decrease) in minority interest in consolidated subsidiaries	880,751	(13,728)
Total from operations	8,352,358	5,474,638
Proceeds from issuance of series C preferred stock	4,587,000	—
Proceeds from sale of investment in affiliate	—	1,083,868
Sales and retirements of plant and equipment	482,581	279,205
Total sources of funds	$ 13,421,939	$ 6,837,711
USES OF FUNDS		
Additions to plant and equipment	$ 7,236,937	$ 7,244,072
Cash dividends—		
Common	655,588	655,471
Preferred	345,705	346,252
Increase (decrease) in notes receivable and prepaid expenses	1,345,476	(11,939)
Increase in investments in affiliated companies (Note 10)	1,815,221	479,533
Decrease (increase) in long term debt	3,946,953	(1,868,083)
Other	12,348	10,971
Total uses of funds	15,358,228	6,856,277
REDUCTION IN WORKING CAPITAL	$ (1,936,289)	$ (18,566)
CHANGES IN WORKING CAPITAL		
Current assets—increase (decrease)—		
Cash	$ 2,076,784	$ 708,715
Receivables	1,251,571	393,873
Inventories	7,181,281	(1,510,115)
	10,509,636	(407,527)
Current liabilities—(increase) decrease—		
Notes payable to banks	(7,673,000)	643,464
Current portion of long-term debt	(1,442,235)	(332,362)
Accounts payable and accrued expenses	(3,218,231)	(620,521)
Accrued income taxes	(112,459)	698,380
	(12,445,925)	388,961
REDUCTION IN WORKING CAPITAL	$ (1,936,289)	$ (18,566)

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS
December 31, 1976 and 1975

ASSETS

	1976	1975
CURRENT ASSETS		
Cash	$ 5,850,478	$ 3,773,694
Receivables, less reserve of $1,071,000 in 1976 and $986,000 in 1975	26,861,280	25,609,709
Inventories (Note 1)	37,314,093	30,132,812
Total current assets	$ 70,025,851	$ 59,516,215
PLANT AND EQUIPMENT, at cost		
Land	$ 1,620,363	$ 1,450,447
Buildings	18,288,347	17,127,842
Machinery and equipment	38,833,635	34,518,219
	58,742,345	53,096,508
Less—Accumulated depreciation	29,923,906	26,053,572
	$ 28,818,439	$ 27,042,936
OTHER ASSETS		
Notes receivable and prepaid expenses	$ 4,836,813	$ 3,491,337
Investments in affiliated companies (Note 10)	3,109,310	1,294,089
Patents and debenture expense, less amortization	105,824	174,611
	8,051,947	4,960,037
	$106,896,237	$ 91,519,188

The accompanying notes to consolidated financial statements

LIABILITIES

	1976	1975
CURRENT LIABILITIES		
Notes payable to banks (Note 3)	$ 18,853,000	$ 11,180,000
Current portion of long-term debt (Note 3)	2,298,004	855,769
Accounts payable and accrued expenses	18,495,295	15,277,064
Accrued income taxes	819,644	707,185
Total current liabilities	$ 40,465,943	$ 28,020,018
OTHER LIABILITIES		
Deferred income taxes	$ 222,000	$ 528,000
Accrued pensions and deferred compensation (Note 7)	1,611,295	1,519,102
Minority interest in consolidated subsidiaries	1,940,979	1,060,228
	$ 3,774,274	$ 3,107,330
LONG-TERM DEBT, less current maturities (Notes 2 and 3)	$ 21,973,071	$ 25,920,024
SHAREHOLDERS' INVESTMENT (Notes 2, 3, 4, 5 and 6)		
Cumulative convertible preferred stock, $5 stated value, authorized 397,797 shares:		
$4.375 Series A and B, issued 78,893 shares in 1976 and 79,143 in 1975 (liquidating preference $7,889,300)	$ 394,465	$ 395,715
$1.75 Series C, issued 135,296 shares (liquidating preference $3,382,400)	676,480	—
Common stock, $1 par value, authorized 4,000,000 shares, issued 1,684,063 shares	1,684,063	1,684,063
Paid in surplus	5,873,167	1,972,029
Retained earnings	32,182,350	30,558,213
Less—Treasury stock, at cost (44,804 common shares in 1976 and 45,387 common shares in 1975)	127,576	138,204
	40,682,949	34,471,816
	$106,896,237	$ 91,519,188

are an integral part of these balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1976 and 1975

(1) Statement of Accounting Policies:
Following are the significant financial and accounting policies of the Company:

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant transactions between the Company and its subsidiaries are eliminated. Investments in affiliated companies are recorded at cost plus equity in undistributed earnings. The Company's share of these affiliates' earnings ($113,000 in 1976 and $254,000 in 1975) is included in the consolidated statements of income as miscellaneous income.

Translation of Foreign Currencies
Accounts of foreign subsidiaries are translated to U.S. dollars in accordance with Statement of Financial Accounting Standards No. 8. Translation adjustments ($460,000 loss in 1976 and $490,000 loss in 1975) are charged or credited to income currently.

Inventories
Inventories are valued at the lower of cost (first-in, first-out basis) or market. Inventory costs include material, labor and factory manufacturing expenses.

Depreciation
Depreciation of buildings is provided over the estimated useful lives generally on the straight-line method for accounting purposes and, at certain locations, on the declining-balance method for income tax purposes. Depreciation of all other property is provided over the estimated useful lives principally on accelerated methods for both accounting and income tax purposes.

Income Taxes
Deferred income taxes are provided to recognize the results of using different methods of depreciation for accounting and income tax purposes and to provide for domestic taxes on undistributed foreign earnings. Deferred income taxes are reduced by future tax benefits resulting from timing differences of tax deductions.

Investment tax credits ($215,000 in 1976 and $165,000 in 1975) are applied as a reduction of the provision for income taxes in the year in which the related credits arise.

Research and Development
Expenses relating to research and development are not so segregated in the Company's accounting records but are a part of the total research and product development cost charged to selling, engineering and administrative expenses as incurred ($3,976,000 in 1976 and $3,677,000 in 1975).

(2) Exchange of Convertible Preferred Stock For Outstanding Convertible Debentures:
On November 29, 1976, the Company began an exchange offer to exchange its $1.75 Cumulative Convertible Preferred Stock, Series C, for its outstanding 4⅜% Convertible Subordinated Debentures, at the rate of 28 preferred shares for each $1,000 principal amount of debentures tendered. The exchange offer which was originally intended to expire on December 22, 1976 was extended through February 2, 1977. Under the terms of the offer, interest on tendered debentures did not accrue after December 21, 1976 and dividends on the preferred shares accrued from December 22, 1976 irrespective of the extension of the original offer period. A total of $4,832,000 principal amount of debentures was exchanged for 135,296 preferred shares as a result of this exchange offer. The accompanying consolidated balance sheet for 1976 reflects the effect of this exchange offer.

Had this exchange been completed at January 1, 1976, primary earnings per share of common stock in 1976 would have been $1.31 ($1.20 on a pro-forma basis).

See Notes 3 and 4 for a description of the cumulative convertible debentures and the cumulative convertible preferred stock.

(3) Indebtedness:

Notes payable to banks at December 31, 1976 and December 31, 1975 are short-term financing arrangements with interest at prime rate. A summary of such borrowings is as follows:

	1976	1975
During the year—		
Maximum borrowed	**$20,979,000**	$11,700,000
Average borrowed	**14,787,000**	9,775,000
Average interest rate	**7.4%**	8.3%
At year end—		
Interest rate	**7.0%**	7.4%

These arrangements provide for an aggregate total commitment to the Company for short-term borrowings from the banks of $22,000,000, of which $18,853,000 was outstanding at December 31, 1976.

Long-term debt at December 31, is summarized as follows:

	1976	1975
4⅜% subordinated convertible debentures	**$ 5,168,000**	$10,000,000
5% note payable due $400,000 annually through 1983 and $500,000 in 1984	**3,300,000**	3,700,000
Revolving credit note	**10,000,000**	10,000,000
Revolving credit agreement	**2,000,000**	—
Unsecured note payable at prime rate, payable annually to 1982	**2,057,000**	2,400,000
Notes payable of subsidiaries, payable in variable annual installments to 1986	**1,746,000**	676,000
	24,271,000	26,776,000
Less—current maturities	**2,298,000**	856,000
	$21,973,000	$25,920,000

The 4⅜% subordinated convertible debentures are due $1,000,000 annually commencing March 1, 1978. It is the Company's intention to use the debentures exchanged for preferred stock (see Note 2) to satisfy the redemption requirements beginning March 1, 1978. The debentures are convertible at any time prior to maturity, unless previously redeemed, into common stock of the Company. The current conversion price is $33.94 per share, and is subject to adjustment for certain events.

The revolving credit note with a bank provides for a maximum credit of $10,000,000 to April 15, 1977, which may then be converted to a four-year term loan maturing in equal installments through April 1981. It is the Company's present intention to exercise its option and convert this revolving credit note to the four-year term note in April 1977. Interest on the revolving credit note is at ¼% over prime to April 1977 and interest on the four-year term loan is ½% over prime. The full amount of the commitment under this agreement was borrowed during 1976 and 1975 and the average rate of interest paid was 7.0% (7.9% in 1975) during the year and 6.25% at year-end (7.3% in 1975).

The revolving credit agreement with a bank was signed in October 1976, and provides for a maximum credit of $15,000,000 to September 30, 1979, which may then be converted at the Company's option to a four-year term loan repayable in equal semi-annual installments through September 30, 1983. Interest is payable at the prime rate to March 31, 1978, ¼% over prime to September 30, 1979, and ½% over prime thereafter. A commitment fee of ½% per annum is payable on the unused portion of the maximum credit to September 30, 1979. The maximum borrowings under this agreement during the year were $2,000,000 at an average and year-end interest rate of 6.25%.

The various agreements and the indenture relating to the 4⅜% debentures contain various restrictions, the more significant of which are as follows: (1) payment of cash dividends and the purchase or redemption of any class of stock may not exceed $2,500,000 in any year on a noncumulative basis; (2) working capital, as defined, may not be less than $30,000,000 (such amount was $39,260,000 at December 31, 1976); (3) net worth, as defined, may not be less than $40,000,000 (such amount was $44,634,000); (4) the ratio of current assets to current liabilities, as defined, of at least 2.0 to 1.0 (such ratio was 2.3 to 1.0 at December 31, 1976); and (5) average 36 month cash flow, as defined, may not be less than 10% of total liabilities (such average 36 month cash flow was 12% of total liabilities at December 31, 1976).

Scheduled maturities of long-term debt are: 1977—$2,298,000; 1978—$3,664,000; 1979—$3,638,000; 1980—$4,022,000; 1981—$2,507,000. The Company has informal compensating balance arrangements with banks which provide that balances will be maintained on an average annual basis at a level equivalent to 10%-20% of the total loan commitments, or a fee will be paid in lieu of balances. The Company was in compliance with these arrangements for 1976.

(4) Cumulative Convertible Preferred Stock:

Dividends on the Series A and Series B preferred stock are cumulative at $4.375 per share. The Series A and B preferred shares are redeemable at the option of the Company at $100 per share. Based upon shares outstanding at December 31, 1976, (78,893), the total redemption price of the Series A and Series B preferred stock would be $7,889,300. The Series A preferred stock is convertible at the rate of 2⅓ shares of common stock for each share and the Series B preferred stock is convertible at the rate of $2^2/_9$ shares of common stock for each share.

Dividends on the Series C preferred stock are cumulative at $1.75 per share. The Series C preferred stock is redeemable at the option of the Company at any time after January 1, 1982 at $25 per share. Beginning in March 1988, the Company will be required to redeem annually 5% (6,765 shares) of the Series C preferred stock outstanding on February 21, 1977 (135,296 shares) at a redemption price of $25 per share. Based on shares outstanding at December 31, 1976 (135,296), the total redemption price of the Series C preferred stock would be $3,382,400. The Series C preferred stock is convertible at the rate of 2.17 shares of common stock for each share (see Note 6). Each Series A, Series B and Series C preferred share is entitled to ½ vote. In 1976, 250 preferred shares were converted into 583 common shares (no conversions in 1975).

(5) Changes in Shareholders' Investment:

The following table summarizes the changes in certain shareholders' investment accounts in 1976.

	Preferred Stock	Paid-in Surplus	Treasury Stock
		(in thousands)	
Balances, December 31, 1975	$ 396	$1,972	$ (138)
Conversion of convertible subordinated debentures to Series C preferred stock, net of related expenses of $245,000	676	3,911	—
Other	(1)	(10)	10
Balances, December 31, 1976	$1,071	$5,873	$ (128)

There were no changes in these accounts in 1975.

(6) Common Stock Reserved:

As of December 31, common stock is reserved for issuance as follows:

	1976	1975
Exercise of stock options	**116,000**	117,000
Conversion of 4⅜% subordinated convertible debentures (Notes 2 and 3)	**152,269**	288,434
Conversion of cumulative convertible preferred stock (Notes 2 and 4)	**475,445**	182,436
	743,714	587,870

Under a qualified stock option plan adopted in 1968, 60,000 shares of the Company's common stock were reserved for issuance to officers and key employees at the market price of the stock on the date of grant. The options become exercisable in whole or in part at any time before the expiration of five years from date of grant. In May 1975 the 1968 plan was terminated by the Board of Directors except as to the options for 37,000 shares then outstanding. No further grants can be made under this plan. During 1976 and 1975 no options were exercised or granted and none expired. At December 31, 1976, options to purchase 37,000 shares at prices ranging from $9.63 to $10.25 per share were outstanding.

In May 1975, the shareholders approved the 1975 Stock Option Incentive Plan and 80,000 common shares were reserved for issuance to officers and key employees at the market price of the stock on the date of grant. Options can be exercised as to one-half of the shares one year after grant; the remaining shares optioned become exercisable two years after being granted. All options under the 1975 plan are nonqualified. The plan includes a discretionary stock appreciation right that permits the optionees to surrender options, in whole or in part, in exchange for common shares or cash having an aggregate value equal to the difference

between the option price and the market value on the day preceding the exercise of the stock appreciation right. During 1976 no options were granted. Options for 40,000 shares granted in 1975 at $7.50 per share became exercisable in 1976, and an option for 1,000 shares was surrendered in exchange for cash under the stock appreciation right (no options were exercised in 1975). Options to purchase 39,000 shares at $7.50 per share were outstanding at December 31, 1976. At December 31, 1976 the aggregate excess of the market price over the option price was $78,000 and represents the appreciation to which the optionees are entitled and has been charged to expense as compensation.

In February, 1977, the Board of Directors approved a 20,000 share nonqualified stock option plan for nonemployee directors, subject to shareholder approval.

(7) Pension, Bonus and Profit Sharing Plans:

The Company funds pension costs of several pension plans covering substantially all employees. Unfunded prior services costs are amortized over thirty years.

Consolidated pension expense was $1,552,000 in 1976 and $1,170,000 in 1975. At December 31, 1976, the value of all pension fund assets and balance sheet accruals exceeded the actuarially computed value of vested benefits. In 1976, the Company amended its pension plans to comply with the Employee Retirement Income Security Act of 1974.

The Company has bonus plans for corporate officers, presidents and managing directors of subsidiaries and divisions and key employees which are based on profit targets and return on invested capital. These plans are administered by the Executive Compensation and Stock Option Committee of the Board of Directors. Certain participants may elect to defer all or any part of the bonus award. The amount charged to income under these plans was $400,000 in both 1976 and 1975.

Certain subsidiaries have profit-sharing plans and the amounts charged to income under these plans were $679,000 in 1976 and $575,000 in 1975.

(8) Income Taxes:

The provision for income taxes consists of the following:

	1976	1975
	(in thousands)	
Current—		
Federal	**$1,672**	$(1,103)
Foreign	**1,032**	1,224
State and local	**335**	—
	3,039	121
Deferred—		
Federal	**(212)**	(225)
Foreign	**(94)**	(164)
	(306)	(61)
	$2,733	$ 60

The total effective income tax rate on consolidated pretax income differs from the expected U.S. Federal income tax rate of 48% for the following reasons:

	1976		1975	
	Amount	**Percent**	Amount	Percent
	($ in thousands)			
Computed standard tax provision	**$2,572**	**48.0**	$ 518	48.0
Increase (decrease) in tax provision resulting from—				
DISC tax exemption	**(76)**	**(1.4)**	(151)	(14.0)
Investment tax credit	**(215)**	**(4.0)**	(165)	(15.3)
State income taxes	**162**	**3.0**	—	—
Income of affiliates	**(54)**	**(1.0)**	(122)	(11.3)
Losses on foreign subsidiaries not tax benefitted	**348**	**6.5**	151	14.0
Foreign tax credit	**—**	**—**	(135)	(12.5)
Other	**(4)**	**(.1)**	(36)	(3.3)
	$2,733	**51.0**	$ 60	5.6

No provision for U. S. income tax has been made on the undistributed earnings of the Company's DISC subsidiary; the Company intends to permanently reinvest these earnings, which totaled $1,636,000 at December 31, 1976.

(9) Net Income Per Share of Common Stock:

Net income ($1.39 in 1976 and $ .41 in 1975) per common share is based upon the average number of common shares outstanding each year (1,638,919 in 1976 and 1,638,676 in 1975) after recognition of a full year's dividend requirements on the preferred shares.

Pro-forma net income per common share ($1.30 in 1976 and $ .41 in 1975) restates earnings assuming the debentures and preferred stock were converted and the stock options exercised at the beginning of the year (see Note 2). Net income is adjusted for the interest on the debentures, net of its tax effect, and preferred dividends. The exercise of stock options is reduced by the number of common shares which are assumed to be purchased with the proceeds from the exercise of these options.

(10) New Ventures and Acquisitions:

In November, 1975, the Company established a wholly-owned subsidiary, Oak Television Inc. as one of two general partners in National Subscription Television, a general partnership. The partnership intends to commence over-the-air subscription television operations in 1977. Oak Television Inc. has made a capital contribution and a loan to the partnership for a 51% interest. Also in November, 1975, the Company acquired a 50% interest in a new corporation, Oak Broadcasting Systems Inc., which acquired the assets of a UHF television station in California in 1976. The station will begin broadcasting subscription programming in early 1977. At December 31, 1976, the Company has made capital contributions and loans of $1,788,000, in the aggregate, to Oak Television Inc., National Subscription Television and Oak Broadcasting Systems Inc. and has made commitments for further capital contributions and loans totaling $1,400,000. Additionally, the Company has guaranteed a note payable of Oak Broadcasting Systems Inc. in the amount of $875,000.

In 1976, the Company acquired a 69% interest in a new corporation, Oak-Mitsui, Inc. for contributions of cash and property totaling $2,045,000. Oak-Mitsui will be engaged in the manufacture of electrodeposited copper foil.

(11) Heller-Oak Communications Finance Corp.:

At December 31, 1976, this 50% owned affiliate, operating as a communications finance company, had gross receivables of $24,520,000 ($20,257,000 in 1975) substantially funded by participations with financial institutions. These receivables consist principally of secured receivables for the construction and operation of cable television facilities and radio and television stations.

(12) Summary of Quarterly Results (Unaudited):

	QUARTER ENDED			
	March 31 1976	June 30 1976	September 30 1976	December 31 1976
	(in thousands except per share)			
Net Sales	$35,673	$37,681	$34,023	$36,761
Gross Income	$ 8,092	$ 8,833	$ 7,582	$ 8,632
Income before income taxes	$ 1,479	$ 1,695	$ 424	$ 1,760
Provision for income taxes	705	822	198	1,008
Net Income	$ 774	$ 873	$ 226	$ 752
Net income per share of common stock—				
Primary	$ .42	$ .48	$ .09	$ .40
Pro-Forma	$ .39	$ .43	$ .09	$ .37

The fourth quarter effective tax rate of 57% is the result of adjusting the Company's previously estimated effective tax rate to the actual annual rate.

Net income for the third quarter has been reduced for translation losses of $260,000 ($.16 per share) primarily due to the devaluation of the Mexican peso on September 1, 1976.

Accountants' Opinion

To the Shareholders and the
Board of Directors of
OAK INDUSTRIES INC:

We have examined the consolidated balance sheets of OAK INDUSTRIES INC. (a Delaware Corporation) AND SUBSIDIARIES as of December 31, 1976 and December 31, 1975, and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of OAK INDUSTRIES INC. AND SUBSIDIARIES as of December 31, 1976 and December 31, 1975, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 24, 1977.

Five Year Review

	1976	1975	1974
FINANCIAL RESULTS			
Net Sales	**$144,138,398**	$113,013,625	$130,140,783
Gross Income	**33,139,164**	24,982,985	33,584,954
Interest Expense	**2,569,269**	2,508,963	2,740,724
Provision for Income Taxes	**2,733,000**	60,000	3,818,000
Income before Extraordinary Item	**2,625,430**	1,019,056	4,774,355
Extraordinary Item*	—	—	—
Net Income	**2,625,430**	1,019,056	4,774,355
Net Income per Common Share—			
Before extraordinary item	**$1.39**	$.41	$2.70
Extraordinary item	—	—	—
Net income	**1.39**	.41	2.70
Pro-Forma Net Income per Common Share**			
Before extraordinary item	**1.30**	.41	2.37
Extraordinary item	—	—	—
Net income	**1.30**	.41	2.37
Cash Dividends per Common Share	**.40**	.40	.38
FINANCIAL POSITION			
Working Capital	**$ 29,559,908**	$31,496,197	$31,514,763
Property, Plant and Equipment (Net)	**28,818,439**	27,042,936	24,394,045
Total Assets	**106,896,237**	91,519,188	89,917,923
Long-Term Debt	**21,973,071**	25,920,024	24,051,941
Shareholders' Investment	**40,682,949**	34,471,816	34,454,483
GENERAL STATISTICS			
Return on Shareholders' Investment—Beginning	**7.62%**	2.96%	15.58%
Capital Expenditures (excluding acquisitions)	**$ 7,236,937**	$ 7,244,072	$ 7,342,458
Depreciation and Amortization	**$ 5,059,984**	$ 4,350,772	$ 4,149,789
Common Shares Outstanding—Average	**1,638,919**	1,638,676	1,638,559
Number of Shareholders (at year-end)	**4,333**	4,631	4,633
Number of Employees (at year-end)	**7,966**	7,372	7,265
Salaries and Wages	**$50,792,023**	$45,087,130	$49,122,381

*Utilization of net operating loss carryovers.
**Assuming full conversion of preferred stock, debentures and stock options.

Common Stock Data

	1976		1975	
	Range	Dividends	Range	Dividends
First Quarter	7¼-10⅝	$.10	5½-9⅜	$.10
Second Quarter	9⅜-12¼	$.10	6⅝-9¼	$.10
Third Quarter	9¾-12¼	$.10	7⅝-11½	$.10
Fourth Quarter	8⅜-10	$.10	6¾-7¾	$.10

Common Stock of the company is traded on the New York Stock Exchange and the Midwest Stock Exchange under the symbol OAK.

1973	1972
$117,983,983	$97,231,396
31,043,805	24,318,674
1,284,107	1,002,345
3,851,000	2,080,000
4,441,208	2,723,415
408,000	274,734
4,849,208	2,998,149
$2.50	$1.45
.25	.17
2.75	1.62
2.21	1.35
.19	.13
2.40	1.48
.32	.18
$22,318,413	$22,204,241
21,289,419	18,375,647
75,218,974	60,810,504
14,635,170	15,166,462
30,649,233	26,670,901
18.18%	12.33%
$ 6,826,271	$ 3,902,329
$ 3,328,920	$ 2,846,875
1,638,523	1,638,346
4,543	4,490
9,584	8,455
$42,900,047	$37,366,301

Comments On Recent Results

Our sales in 1976 rose 27 percent. A substantial part of this increase resulted from the return of the domestic economy, although some contribution was made through an increase in market share.

Earnings increased even more substantially in 1976, reflecting the improved sales volume. However, earnings still were reduced by several factors. These include declines in value of our English and Mexican investments through devaluation of the pound and peso, start-up expenses relating to our subscription television operation in Los Angeles and new operations in our Materials Group, and reduced DISC tax benefits resulting from the Tax Reform Act of 1976.

Sales in 1975 declined 13 percent compared to 1974. The decline was directly related to the recession which affected many of our domestic and world markets that year.

The drop in volume was the major reason for our decreased profitability in 1975, although other factors also affected earnings. These included depressed prices in the markets where the recession was most serious; increased costs arising from several plant consolidations and new venture developments; and devaluations of the British pound and the South African rand, which caused a decrease in value of our investments in England and South Africa.

In 1975 our effective income tax rate declined because of the significance of the DISC tax exemption, investment tax credit, income of affiliates and foreign tax credits.

The 10 percent sales improvement we achieved in 1974 was due mainly to good conditions in the first half of the year in three of our four major markets—components, materials and communications equipment. While net income in 1974 was the second highest in our history, it was affected by inflation and high interest rates. Increasing material and wage costs could not be wholly recovered through cost reduction programs or price increases. Further, interest expense grew significantly as a direct result of rate increases experienced during the year and the higher level of borrowing required to support our capital requirements.

Directors

Frank A. Astrologes
Chairman, National Subscription Television

Carl J. Bradshaw
Senior Vice President

Everitt A. Carter
Chairman of the Board and Chief Executive Officer

John E. Drick
Former Chairman, Executive Committee, First Chicago Corporation and The First National Bank of Chicago

George B. Hamilton
Former Chairman, Executive Committee

Philip S. Harper, Jr.
Senior Vice President

Leo Jedynak
Professor of Electrical Engineering, University of Wisconsin

Luther W. McCoy
President, McCoy Electronics Company

Robert T. McTigue
Group Vice President, Controls

Albert A. Morey
Management Consultant; Former Chairman, Marsh & McLennan, Inc.

Raymond W. Peirce
Executive Vice President, Operations

J. Bradford Wharton, Jr.
Management Consultant and President, The Wealden Company

Board Committees

EXECUTIVE COMMITTEE

Robert T. McTigue *(Chairman)*
Everitt A. Carter
John E. Drick
George B. Hamilton
Philip S. Harper, Jr.
Albert A. Morey

AUDIT COMMITTEE

J. Bradford Wharton, Jr. *(Chairman)*
John E. Drick
George B. Hamilton
Albert A. Morey

FINANCE COMMITTEE

John E. Drick *(Chairman)*
Frank A. Astrologes
Everitt A. Carter
Eugene N. Meyer
Albert A. Morey
J. Bradford Wharton, Jr.

EXECUTIVE COMPENSATION COMMITTEE

John E. Drick *(Chairman)*
George B. Hamilton
Leo Jedynak
Albert A. Morey

NOMINATING COMMITTEE

Albert A. Morey *(Chairman)*
Everitt A. Carter
John E. Drick

Officers

Everitt A. Carter
Chairman of the Board and Chief Executive Officer

Raymond W. Peirce
Executive Vice President, Operations

Gary T. Barbera
Group Vice President, Materials

Werner R. Koester
Group Vice President, Communications

Robert T. McTigue
Group Vice President, Controls

Bissell J. Smith
Group Vice President, Components

Carl J. Bradshaw
Senior Vice President

Philip S. Harper, Jr.
Senior Vice President

Robert J. Hartney
Vice President, Corporate Relations

Eugene M. Keys
Vice President, Sales

Eugene N. Meyer
Vice President, Finance

Frederick C. Rueckert
Vice President, Corporate Development

William D. Scholten
Vice President, Manufacturing

James N. Skeen
Vice President, Industrial Relations

William S. Strout
Vice President, Procurement

R. Douglas Wilber
Treasurer

William R. Guerra
Controller

Helen O'Connell
Secretary

John Yonco
Assistant Secretary

Operating Management

Domestic

MICHAEL L. AMALFITANO
President
Atlantic Laminates Division
Franklin, New Hampshire

GARY T. BARBERA
Acting President
Tri-Point Industries Division
Hoosick Falls, New York

A. KEITH COOK
President
Illuminated Products Inc.
Santa Ana, California

HOWARD J. GOSS
President
Harper-Wyman Company
Hinsdale, Illinois

STEVEN J. KARWAN
President
Circuit Materials Division
Princeton, New Jersey

WERNER R. KOESTER
President
CATV Division
Crystal Lake, Illinois

LUTHER W. McCOY
President
McCoy Electronics Company
Mt. Holly Springs, Pennsylvania

WILLIAM F. McGUINNESS
President
Fluorglas Division
Hoosick Falls, New York

LEONARD J. MICINSKI
Vice President and General Manager
Hart Indiana Division
Mishawaka, Indiana

ROBERT F. ORGAN
General Manager
Win-West Plastics Division
Wauconda, Illinois

CHARLES B. RADLOFF
President
Switch Division
Crystal Lake, Illinois

EDWARD H. TUMBUSCH
President
Techno-Components Corp.
Van Nuys, California

LOREN N. YOUNG
Vice President
Heller-Oak Communications Finance Corp.
Chicago, Illinois

International

ROGER CHANG
Executive Vice President and General Manager
Oak Far East Corporation
Taipei, Taiwan, Republic of China

RONALD H. DALE
Managing Director
Oak Industries (South Africa) (Pty.) Ltd.
Pietermaritzburg, South Africa

PIETER DEN TOONDER
Director
Oak Research & Engineering Center
Dordrecht, Holland

WILLIAM Q. DOUGLASS
Vice President and General Manager
Harper-Wyman de Mexico S. A. de C. V.
Mexico City, Mexico

KENT A. HAUVER
General Manager
Oak Brasil Industrial Ltda.
Sao Paulo, Brazil

JOHN J. C. HUANG
Executive Vice President and General Manager
Oak Materials Taiwan Ltd.
Taipei, Taiwan

JACK I. KOUGEL
General Manager
Harper-Wyman de Venezuela S. A. de C. V.
Caracas, Venezuela

WILLIAM M. LEHRER
Vice President and General Manager
Oak Industries Korea
Seoul, Korea

K. A. MATHEW
Managing Director
O/E/N India Limited
Cochin, Kerala, India

EIKE NAGATO
President
Oak Japan Limited
Tokyo, Japan

DONALD V. PASCARELLA
General Manager
Oak Holland B. V.
Emmen, Holland

IAN S. PETHERICK
Managing Director
Diamond H Controls Ltd.
Norwich, England

RONALD F. SHAW
Managing Director
Harper-Wyman Limited
Malvern Link, England

ROGER B. STEVENS
President
Harper Oak Limited
Aurora, Ontario, Canada

LAWRENCE YU
Vice President
Oak Industries Hong Kong Ltd.
Hong Kong, B. C. C.

CORPORATE DATA: General Offices: Crystal Lake, Illinois; Stock Transfer Agents and Registrars: The First National Bank of Chicago, Chicago, Illinois and Citibank, N.A., New York, New York; Trustee Under the Debentures: The Northern Trust Company, Chicago, Illinois (Citibank, N.A., New York, New York, *New York Authenticating Agent)*; Stock Exchanges: New York Stock Exchange and Midwest Stock Exchange.